Development Aid, Does it help or hinder?

Overall, in 2012, the African continent received about US$61.1 billion in ODA and US$42.2 billion in CPA. About two-thirds of this was direct bilateral assistance. This volume of CPA amounted to around 2.2% of gross African national income (GNI) in 2012.

By Peter Lawrence and Michael Prior

The problem with anything written about development aid particularly when it comes from hardened participants in its various guises is that it can descend into a series of anecdotes, each capping the last. (Uganda's rabbit multiplication project? That's nothing, remember the Bangladeshi paper mill…). Alternatively, it can rise into a cloud of generalised statements which only reinforce existing prejudices. In part this problem arises from the sheer diversity of the actions called development aid. In what frame is it possible to bring together, for example, the loan by the World Bank in 2010 to the South African power utility, Eskom, of around US$3.75 billion as part of a $10 billion project to build 4800 MW of coal-fired capacity, with the US$0.3 million spent by the Swedish International Development Agency between 2012-14 in Mozambique supporting a programme to improve institutional capability in areas such as gender-based violence? Let us start with some statistics.

The Development Assistance Committee (DAC) of the OECD, an international grouping of 34 developed countries, defines official development assistance (ODA) as spending which has the "economic development and welfare of developing countries" as its primary objective. This can include some spending on refugees and students in donor countries, activities to build public support there for overseas development and the costs of administering aid programmes and debt relief, even though no new funds find their way to recipient countries. Approaching 20% of OECD aid is spent this way and the proportion can be much higher in the case of some EU countries.[1] Much ODA is not a gift but a concessional loan, that is one below current market rates, and including a grant element of 25%. There has been some debate as to whether loan or grant aid is preferable. Current consensus, at least within the main agencies, is that concessional loans are to be preferred, repeating the view noted above that loans incentivise "policymakers to use funds wisely and to mobilize taxes or, at least, to maintain current levels of revenue collection. In contrast, grants are viewed as free resources and

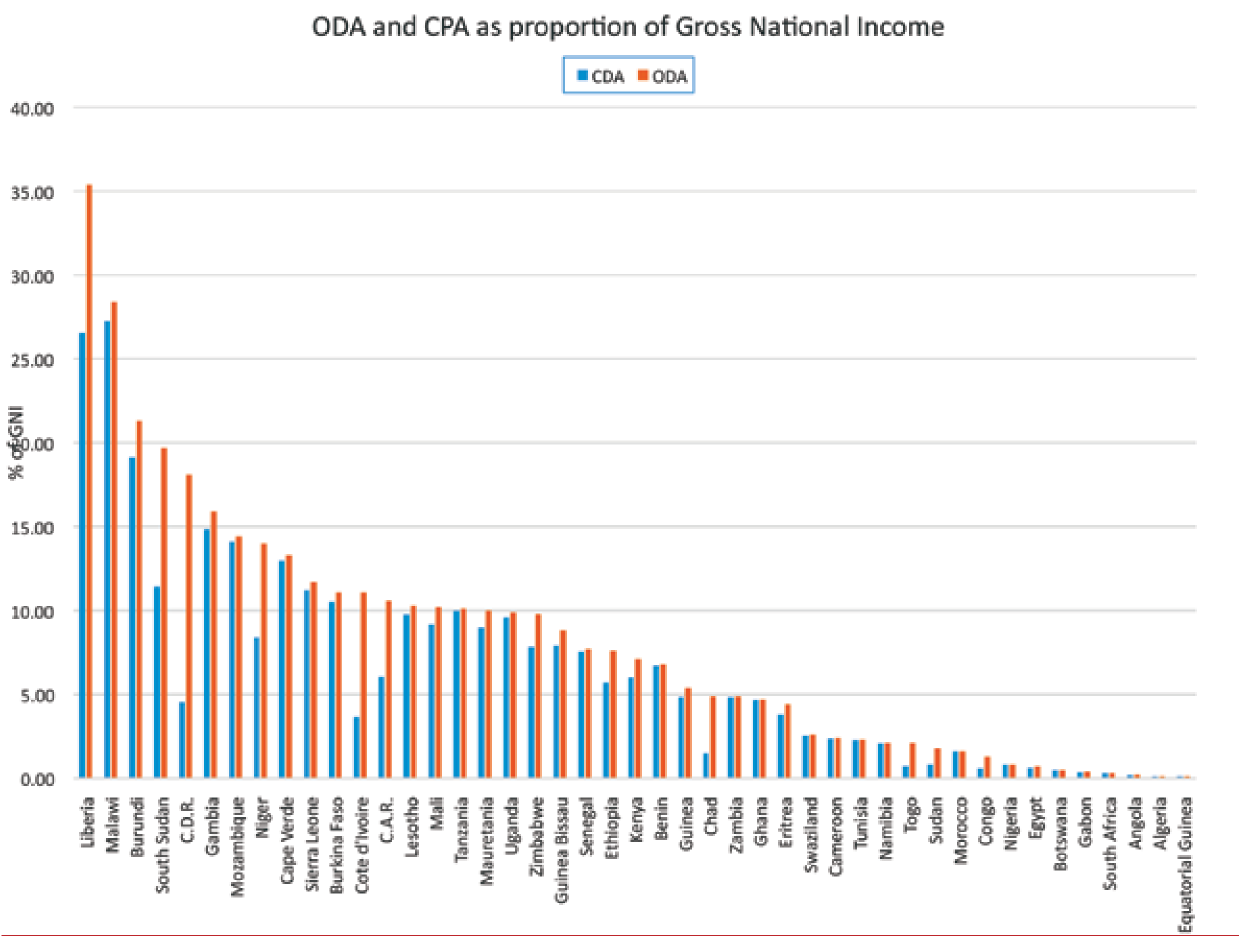

Fig.1: Official Development Aid and Country Programme Aid as a proportion of national income in African countries

could therefore substitute for domestic revenues".[2]

However, in the past, excessive loans could not be repaid and led to the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, between 2000 and 2012 which resulted in 35 countries having some $130 billion in pre-2003 debt written off. A recent paper by the Jubilee Debt Campaign argues that because of the very real risk of new debt crises being created in the developing world, urgent measures are needed to make lending more responsible and to create fair and transparent ways of dealing with debt crises if they do arise.[3]

ODA in 2013 by OECD countries amounted to $134.5 billion, about 0.3% of their Gross National Income, a 5.9% rise on the previous year but well below the 0.7% target recommended by the Pearson Commission in 1971. War-ravaged Afghanistan received by far the largest amount at just over $5 billion. Direct bilateral aid only accounts for about 70% of disbursement by OECD countries. The other 30% is filtered through multilateral agencies such as the World Bank group or used inside the donor countries thus obscuring the overall regional and country income. However it is significant that over 36% of allocated aid goes to what are classified as 'middle-income' countries, whilst just 32% is distributed to low income states. The top five recipient countries are all Asian (Afghanistan, Myanmar, Vietnam, India and Indonesia) whilst Kenya, Tanzania, Cote d'Ivoire and Ethiopia in that order are the next most important with Kenya receiving $2 billion and Ethiopia nearly $1.9 billion. Sub-Saharan Africa is the largest region receiving aid, with 26.9% of the total, south and central Asia receiving 16.9%.

The DAC has made some effort to strip out those elements of ODA which are not passed directly on to recipient states: debt relief, humanitarian aid, in-donor costs, aid through NGOs, and spending that is not allocated to specific countries. It calls this 'country programmable aid' (CPA) reducing the total of $134 billion noted above to only US$56.9 billion. Significantly, Africa as a whole receives only 38% of this CPA, amounting to $21.7 billion, whilst Asia receives nearly 45.6%., reflecting both the huge volume of 'aid' pumped directly into Afghanistan, largely by the USA, and African countries as the largest recipients of debt relief, the latter allowing for a subtle form of double-counting: aid one year in the form of concessionary loans and aid a few years later when the same debt is written off. As well as Afghanistan, six other Asian countries also rank in the top ten recipients of CPA: the proportion of CPA directed to middle-income countries was 53% against 41% or US$23.4 billion, going to low-income states.

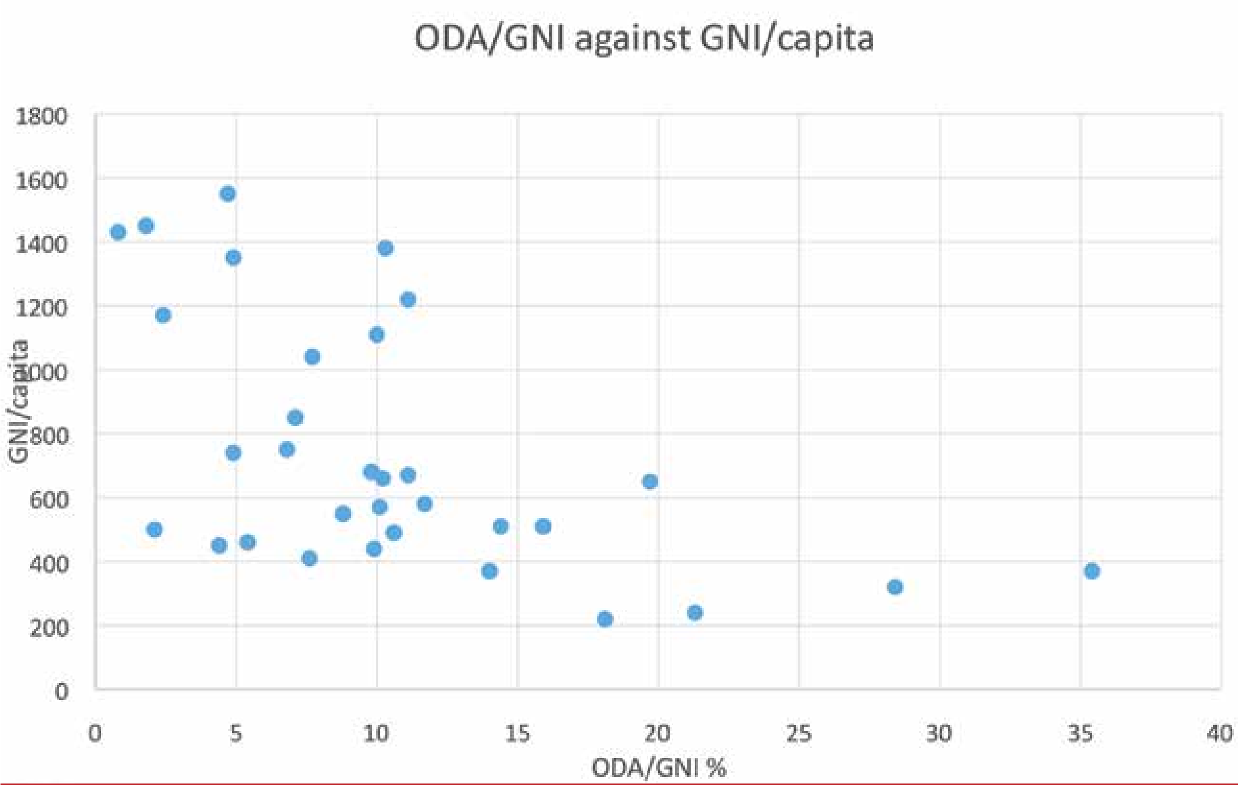

Fig 2: Official Development Aid as a proportion of Gross National Income in poorer African countries

Overall, in 2012, the African continent received about US$61.1 billion in ODA and US$42.2 billion in CPA. About two-thirds of this was direct bilateral assistance. This volume of CPA amounted to around 2.2% of gross African national income (GNI) in 2012. It is interesting that the volume of CPA received by Asian countries that year was roughly equal to that of Africa at US$39.9 billion but only formed 0.3% of the latter's GNI.

Official Development Assistanced	38.2%
Personal remittances	24.1%
Foreign Direct Investment	13.2%
Other Securities	12.3%

Fig 3: Sources of external resources into Africa: 2013

The impact relative to national income does vary as can be seen in Fig. 1. For example, Malawi is recorded as receiving US$1.2 billion of ODA in 2012 amounting to 28% of GNI whilst Liberia received aid amounting to 36% of its GNI. However, these are exceptional countries; the normal proportion of GNI for most lower-income African countries is below 10%. Fig 2 shows the proportion of ODA to poorer African countries plotted against GNI/capita. (Countries with a GNI/capita greater than $2500 have been omitted). It shows that, although the very poorest receive a slightly higher proportion of ODA, overall there is no obvious relationship. Overall, ODA forms a very important component of external resource flows into Africa, as shown in Fig. 3, amounting to 38%, with remittances accounting for 24% and comfortably exceeding direct investment at 13%.

Finally, the role of China in aid to Africa has been much debated in recent years. China does not provide any figures to the DAC on its overseas aid programme though it has recently started to provide some of its own statistics. These do not always conform to the definitions of the DAC and so comparable numbers are hard to find. One detailed study[4] suggested that, in 2009, Chinese disbursement in Africa (the DAC measure) amounted to about US$1.4 billion. The DAC itself estimates that, worldwide, in 2013, China disbursed bilaterally or through multilateral agencies US$5.9 billion. Therefore, Chinese direct aid amounted to less than 4% of total OECD direct aid, though the Chinese efforts may be targeted at fewer countries. China has recently been instrumental in setting up the Asia Infrastructure Investment Bank which some have seen as a rival to the World Bank and associated institutions and which may offer loans on a concessional basis.

The Debate on Foreign Aid: Is it necessary and does it work?

Development aid has always had vocal critics both on the right and the left. From the very beginning in 1971, on the free-market right, Bauer argued that aid was 'plain charity' and really had nothing to do with development.[5] Countries that needed capital because of low savings potential should borrow on capital markets, ensuring loans were productive and repayable. Governments could borrow to build roads or railways or other parts of social and economic infrastructure and repay from the additional tax revenue following increased economic activity. Even aid for 'the relief of need' is rejected as the definition of 'need' differs between underdeveloped and developed countries, and could be the consequence of poor decisions by the recipient governments – excessive military spending for example. Aid often served geopolitical purposes but he argued that these might be better served by a 'military presence in the recipient country'. For Bauer, there are really no circumstances under which aid is justified. Modelling foreign aid on the post-second world war Marshall Plan was an error: this was aid to 'restore' ravaged economies, not to develop them.

From the left aid was seen as a neo-colonial project (especially where it was tied to the purchase of inputs from donor country firms) and unnecessary as the quantity of foreign resources that needed to be mobilised could be effected by a reduction in import consumption by the domestic higher income groups thus releasing foreign exchange for importing the equipment necessary to industrialise. Aid's geopolitical role was powerfully critiqued by Teresa Hayter, whose study[6] of World Bank and other international institutions' aid to Latin America argued that it was used by these agencies, and the capitalist countries that controlled them, to influence recipient government policies in such a way as to maintain the interests of capitalism and prevent the further spread of communist regimes. Not for nothing at that time was the largest chunk of aid going to South Vietnam. 'Leverage', the use of the power to lend to force recipients to pursue specific policies, became better known in the 1980s as 'conditionality' and was very publicly written into loan agreements part of 'structural adjustment' programmes, the implementation of which was a condition for both development aid and balance of payments support from the World Bank and the IMF respectively.

In between these two views were those who believed aid could be effective, as had been demonstrated in the case of countries that had received large amounts of aid allowing sustained growth and eventually requiring no aid.[7] The case for development aid was reinforced over two decades by the Commissions headed by Pearson (1969)[8], Brandt (1981)[9], and Brundtland (1987)[10] on the basis of mutual interests of developed and developing countries. Pearson addressed the 'widening gap' between them: 'the central issue of our time', and the growing disenchantment with aid, especially the mistrust as to donors' motives and recipients' ability to use aid productively. Aid augmented scarce domestic resources for investment, was necessary, and needed to be substantially increased. The Commission famously recommended that the volume of aid should be raised from the then average of 0.39% of developed country GDP to 0.7% by 1975 and no later than 1980. This target has yet to be reached by most industrialised countries.

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These arguments continued throughout the 1970s but the pro-aid lobby prevailed. Donor country governments expanded their efforts, NGOs expanded and proliferated, and the international institutions became more active and powerful. Debates continued, and studies appeared defending aid,[11] or directly asking whether it worked and if it didn't, how it could be made to work.[12] The general view was that although there were problems and bad decisions, aid did more good than harm and that the important thing was to discover why it worked in some cases and not in others rather than to make blanket statements about aid in general.

However, critiques of aid also continued. Easterly[13] argued that aid in the form of typically grandiose plans and projects had done little good and a lot of harm though specific kinds of aid did work. The problem was western intervention, whether from the World Bank, Live Aid, the Gates Foundation and other grand efforts to 'make poverty history', or military intervention that has sought regime change. He distinguishes between Planners, who advocate aid and have development plans to make use of it, and Searchers who find and take opportunities in markets. Planners have 'good intentions, but don't motivate anyone to carry them out': for example, after all those billions of aid dollars, neither '12 cent medicines' nor 'four dollar mosquito nets' have been provided to the poor to combat malaria. Searchers on the other hand, find out about markets and what is likely to be in demand at affordable prices and produce accordingly: JK Rowling, 'a single mother on welfare without a plan or an International Financing Facility', took the chance to write the Harry Potter series which made her fortune.

Aid agencies have failed to deliver their big targets, as with the Millennium Development Goals. The aid that does work is from Searchers: the agency that got bed nets to those with an incentive to use them – pregnant mothers at ante-natal clinics, thus reaching the main risk groups for malaria, pregnant mothers and children under five. Costing 50 cents each with the nurse getting nine cents for each net, an incentive to ensure the nets are always in stock. They are also sold to better off Malawians at five dollars each, thus subsidising the cheaper nets for the poor. According to Easterly, this is aid that works in comparison to handing out free nets to everyone when only a small proportion get used. In effect foreign aid that doesn't use market mechanisms will not work well and will be wasted.

More recently, the Zambian economist Dambisa Moyo published *Dead Aid*.[14] A graduate of Oxford and Harvard universities, a World Bank consultant and former employee of Goldman Sachs, she dedicates her book to Bauer and follows much of his reasoning. Aid is always a market distortion, causing a vicious circle of low growth, persistent poverty, corruption, low savings, and low investment back to low growth, prevents the spread of entrepreneurship, causes civil wars (often about competition among different ethnic groups for food aid). Inflows of aid overvalue exchange rates encouraging imports and reducing incentives to export. Countries which have received aid and done well have done so because aid was very small.

As to why donors continue aid if it is so ineffective, Moyo argues that apart from the political, economic and moral considerations, the livelihoods of thousands of people employed by the donor agencies and development ministries depend on the dispensing of aid, and by implication, the perpetuation of the dependency relationship with the donors.

Moyo's solutions involve African countries establishing stock markets, using bond markets to raise investment funds, spreading the risk to investors by seeking loans collectively through for example, the Pan-Africa Infrastructure Development Fund (PAIDF), encouraging micro-finance for small agricultural and industrial producers, reducing the transfer costs of remittances, encouraging Foreign Direct Investment, and fostering trade both with developed countries and within Africa. As with the Asian emerging economies, once countries show they are open to business and mean business, their credit scores rise and they can get loans cheaper than before. This is easier to achieve if a country is resource rich, but it is also possible in cases where countries are resource poor, especially if they can pool risk through collective borrowing. As for investment and trade, relations with China are leading the way in infrastructural development, manufacturing investment and commodity trade: China exchanges what Africa can offer with what it can offer Africa.

The issue with all these critics, both from the left and the right, is that they all proceed, ideologically, from idealised worlds, either ones free of capitalism or with some form of free market which are then warped by the intrusion of aid. None, and this is particularly true of Moyo, can cope with the hard facts of reality; that idealised free markets are just an imaginary construct of economics textbooks. Aid for better or worse has to find its way through the maze of the real world.

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Finally, there is an account of aid[15] arguing both sides in the context of Tanzania's economic history. On the one hand, in spite of pursuing socialist policies that did not work, Tanzania continued to receive large amounts of aid from donors to support those very policies: 'toxic aid' that impoverished the country by encouraging 'misguided policies, blunders, [and] growing corruption' and heavily outweighed the benefits from 'socially worthwhile projects', mainly in education and health. In this story, it was only when the donors reversed policy from 'toxic aid' to the 'tough love' of conditionality, that eventually Tanzania reformed, achieved growth rates among the highest in Africa and aid began to work. This view places the responsibility on donors to exert leverage on recipients so that aid can be effective with the 'right' domestic policies which are 'owned' by the recipients. This continues to be the strategy of the donors, led by the World Bank, to whose record we now turn.

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The World Bank

The 30% of OECD aid, or $39 billion annually, that is provided to multilateral agencies plus funds supplied for 'earmarked' projects puts the share of multilateral agencies in gross ODA at around 40%. There are over 200 of these agencies according to the DAC, mostly under the UN umbrella, the most important single agencies being the World Bank Group, the European Union, the UN and, to a lesser extent, the two largest regional development banks of Africa and Asia. The largest of these is the UN group though as a single, multilateral agency the EU leads providing around $12.5 billion in core funding. (Including earmarked funds, the World Bank Group comes top).[16] In Africa, the EU is comfortably ahead providing 14% of the $51 billion net disbursement against the 9% provided by its International Development Agency (IDA) wing.[17]

However, in terms of influence, the World Bank is the dominant force in all aspects of development aid. As Sender argues in his critical appraisal of the role of the Bank in Africa, it "together with the IMF, has achieved a great deal of influence on the disbursements made by bilateral and multilateral donors; it has often been the case that non-Washington donors will not disburse aid to a sub-Saharan African country until that country has signed agreements with the Bank and the IMF."[18] Hence the World Bank is the main focus for left-wing critiques of ODA because of its espousal of free-market economic policies.

The Bank has developed into something of a hydra-headed monster with five distinct parts; the IDA, the International Bank for Reconstruction and Development (IBRD), which together constitute the World Bank as such. Add to this the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment

Disputes (ICSID), all of which have been set up to assist the private sector in developing countries: none meet the DAC criteria for development aid. Neither does the IBRD, as its role in Africa is extremely limited with new loans to sub-Saharan Africa of just $42 million from a world-wide total of $15.2 billion in 2013. The IDA is financed largely by donor contributions through loan repayments and a small volume of transfers from the IBRD.

All ODA is political, an intervention by one sovereign state or quasi-sovereign agency in the affairs of another. However, the political role of the World Bank is often rather larger than that of most other development agencies. Set up as the IBRD at the Bretton Woods conference in 1946 as the IMF's partner to aid reconstruction in Europe, its first loan was to France in 1947. It provided $250 million, the biggest in real terms ever granted, on condition that the loan received primacy in repayment over all other external debts and that Communist ministers in the then government be dismissed. This condition came via the US State Department whose views on other countries have remained crucial to World Bank approval.

Thus after the Egyptian government agreed to Soviet finance for the Aswan Dam project in 1956, Bank loans ceased until 1974. Vietnam in the 1970s and 1980s and Iran after 1979 were also frozen out of Bank largesse. In 2000, one of us worked on a Bank project analysing ways to export gas from Turkmenistan to Europe. The obvious route was through Iran to whom Turkmenistan already exported gas. However, even a visit to the country was rejected although Iran was a member of the Bank, apparently in good standing. A further example of US influence on the Bank is that Cuba is not a member and has never received any project aid.

Explicit embargoes on countries in line with US foreign policy was a blunt instrument and relatively rarely used in the years when the Bank's main activity consisted mostly of loans for infrastructure projects. However, in the 1980s there developed an emphasis on wider development projects and a greater level of conditionality associated with loans, increasingly based upon the neo-liberal economics then coming into favour under Reagan and which crystallised in the form of the so-called 'Washington consensus' associated with policies of opening up markets, free movement of capital, privatisation and 'rolling back' the state. It is rather ironic that the vehement criticism from the right, outlined earlier, largely reduces to claims, noted above, that ODA is inimical to just these aims. Though there has been some shift from its most ideological period in the 1990s into this century, partly following sustained criticism from former Bank Chief Economist, Joseph Stiglitz, and others of similar eminence and partly because such policies, particularly in Africa, have not had positive results in promoting economic growth, the Washington Consensus still govern the broad outlines of the Bank's work. One significant moment in this shift was the Asian financial crisis of 1997 in which the IMF's role was subsequently sharply criticised and in which countries, especially Malaysia, which refused IMF conditionality, suffered rather less than those which accepted.

The World Bank is more than a lender. In Sender's words, *the Bank has established a hegemonic position as the dominant source of economic and policy analysis for sub-Saharan Africa… Most donors to, and governments in, sub-Saharan Africa must rely on economic and other statistical data collated, processed or collected by the Bank in formulating development policy."*[19] The scale of the Bank's efforts in the area of research and analysis is vast and impossible to summarise. To take random examples: under 'M' in the country index, one can find 119 publications on Malawi and 55 under Mali whilst under 'S' there are 102 for Senegal, 67 for Sierra Leone and 13 for Sao Tome and Principe. This array of research reports are additional to the regular statistical bulletins used widely as authoritative sources of both macroeconomic and micro data, often unobtainable from the statistical agencies in individual countries.

The quality of this research varies widely from excellent through to bad and just invented. This may not matter much, one way or another, as most users learn discretion. What matters is that this huge volume of information (knowledge services in Bank-speak), creates the impression of an institution whose opinions on country or regional policy have to be accepted as the best there is. Such efforts do not come cheap. Administrative costs of the Group come to about $3.6 billion including a rather astonishing $339 million spent on travel in 2013.

Although not directly responsible for ODA, the International Finance Corporation is the part of the World Bank Group that directly finances private sector bodies in developing countries. Created in 1956, the IFC remained dependent upon World Bank funding until 1984 when it achieved financial and legal independence, raising funds through bond issues. Now with a global portfolio of somewhat above $50 billion, about 15% of which is in sub-Saharan Africa, it invested $4.7 billion in the region in 2013. In 2000, just 13% of the group's total spending was allocated to the IFC, but by 2013

Katse dam in the Lesotho Highlands Water Project that figure had soared to 35%. The IFC has grown so rapidly that it now forms half of the World Bank Group.

The IFC recently came in for severe criticism from a group of NGOs led by Oxfam:

> *The private sector arm of the WBG, the International Finance Corporation (IFC) invested $36bn in financial intermediaries, which include commercial banks, private equity and hedge funds, in the four years leading up to June 2013. …. investment in the financial sector outstrips WBG lending to important social sectors: totalling 50 percent more than direct lending to health, and three times the amount the WBG lent directly to education in the same period. Meanwhile, criticisms about this model of financing and the human and environmental costs it entails have grown.*

The report provides several examples which demonstrate that

> *IFC lending through financial intermediaries has in numerous cases had significant and long-term detrimental impact on already vulnerable communities. At the core, the concerns of affected communities and civil society go beyond just technical fixes, and relate to fundamental questions about the development impact rationale for the IFC's investments in financial intermediaries."*

Natalie Bugalski, legal director of Inclusive Development International and a co-author of the report, recently said: *IFC's lending to third parties is now so huge, its portfolio so shrouded in darkness and riddled with abuse, that it needs to completely overhaul this lending model."*[20]

This criticism could be applied to the entire World Bank Group though the complaints against the IFC are particularly shocking. Sometimes criticism is misplaced. Along with other agencies, the Bank certainly lends to large projects, in particular dams and hydrocarbon pipelines, which damage the environment and may cause social problems.

Two African projects which have been particularly criticised in this respect are the Lesotho Highlands Water Project and the Chad-Cameroon Oil Pipeline. Just Phases 1A/B of the former cost around US$3.5 billion whilst the latter cost some US$3.7 billion; both required substantial resources from a number of agencies including the World Bank; and in both cases, it seems that significant numbers of local people displaced by development have received little direct benefit. It should be borne in mind, however, that such complaints are nearly always levelled against such projects throughout the world in both rich as well as poor countries and the final decision on them lies with sovereign governments and not financing institutions.

The Lesotho project saw a number of corruption cases before the Lesotho courts and there is no doubt that similar problems arise in countries with less open judiciaries. However financial transactions of many kinds and involving many regimes are accompanied by corruption, such as Middle East arms sales. The Bank along with other agencies are clearly faced with an acute dilemma. Should they assist projects which will help the poor in a particular country or should they draw back, knowing that however tight the financial control, some of the funds will be diverted into private government pockets?

> **"I see that you have come from Washington with your mouth, Monsieur, but have left your ears behind"**

In the end, the central criticism of the World Bank is that it is too big, has too many functions and has taken over a role both as a dominant 'information bank' as well as a financial bank. Few countries, particularly in Africa, are able to stand up to the Bank and its neo-liberal free-market policies despite overwhelming evidence that they do not aid development. The most conspicuous examples of successful development in Asia are precisely the ones which did not follow the Washington rules. Perhaps the most succinct commentary against Bank policies came when one of us was part of a World Bank mission to China and attended a small meeting between the French head of the Bank's power division and a senior official in the Chinese energy ministry. After a long introduction from the Bank representative, there was a long silence and the official briefly responded in Chinese. Amidst smothered embarrassed giggles from his staff, the translation came: "*I see that you have come from Washington with your mouth, Monsieur, but have left your ears behind*". There is indeed still much listening and learning to be done by donors and recipients if aid is to be more successful than it has been. ■

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